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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

General Counsel
83-03517

FROM:	EXTENSION	NO.
STAT [redacted] Deputy Director of Personnel STAT 5 E 58 Hqs.	[redacted]	83-03517 DATE 28 April 1983

TO: (Officer designation, room number, and building)	DATE RECEIVED	DATE FORWARDED	OFFICER'S INITIALS	COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)
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File

Civil Service Retirement Change

29

FORM 1-79 610 USE PREVIOUS EDITIONS

U.S. HOUSE OF REPRESENTATIVES
PERMANENT SELECT
COMMITTEE ON INTELLIGENCE
WASHINGTON, D.C. 20515

April 25, 1983

STAT

Office Of personnel
Central Intelligence Agency
Washington, D. C. 20505

Dear Ben:

Thought you would find the attached to be of interest.

Sincerely,

Michael J. O'Neil
Chief Counsel

Enclosure

Approved For Release 2008/09/16 : CIA-RDP86B00338R000400620027-3

House of Representatives

Committee on Post Office and Civil Service

Washington, D.C. 20515

TELEPHONE (202) 225-4054

April 22, 1983

Dear Colleague:

In recent months a great deal of misleading or inaccurate information concerning the civil service retirement system has appeared. For example, a totally inaccurate press release claiming the system spent more on beneficiaries than was spent on welfare assistance was picked up by a number of newspapers.

To clarify some of the misinformation, I addressed several questions concerning the system to the General Accounting Office. GAO's responses are enclosed. This information should be helpful in understanding the system and in responding to constituents.

Very shortly I will be providing you with a comprehensive report on the civil service retirement system which was prepared at my request by the Congressional Research Service. The report contains a detailed description of the system and exhaustive facts and figures concerning financing, beneficiaries, annuity amounts, and contributions.

With kind regards,

Sincerely,

William D. Ford

WILLIAM D. FORD
Chairman

Attachment

RESPONSES TO COMMITTEE'S QUESTIONS
ABOUT THE CIVIL SERVICE RETIREMENT SYSTEM

QUESTION:

The Director, Office Of Personnel Management (OPM), maintains that "costs are skyrocketing," and the system is "out of control." Is this true?

RESPONSE:

Any retirement system that covers about 2.8 million employees and 1.9 million annuitants, as does the civil service system, is going to be expensive. Whether it is too expensive is a value judgment. And the Congress must make this judgment, taking into consideration the system's role in the total Federal compensation package and the system's objectives.

Some facts about the system's cost need to be kept in mind. In each of the last 3 fiscal years, the system's dynamic normal cost has decreased. According to OPM estimates, it dropped from 36.8 percent of payroll in fiscal year 1979 to 35.3 percent of payroll in fiscal year 1982--the result, mainly, of benefit reductions made by the Congress in each of those years. Based on a covered payroll of about $60 billion, these cuts represent a $900 million decrease in retirement costs accruing in fiscal year 1983 alone.

Since 1969, optional retirement benefits have not been liberalized. In fact, significant benefit reductions have been enacted by the Congress. On March 3, 1983, we reported to the Chair, Subcommittee on Compensation and Employee Benefits, House Committee on Post Office and Civil Service, that the cumulative reduction in retirement payments resulting from benefit reductions made since 1975 amounted to $5.3 billion.

Note: "Dynamic normal cost" is explained in response to the final question.

QUESTION:

What effect do civil service retirement transactions, such as employee contributions, benefit payments, annual payments from the Treasury, have on the Federal budget?

RESPONSE:

Monies paid into the civil service trust fund--deductions from employees' salaries, agency contributions, direct congressional appropriations, and interest earnings--are required by law to be invested in Federal securities. Except for employees' contributions, there is no cash exchange involved in this kind of intragovernmental transaction--only bookkeeping entries. Employee contributions are treated as budget receipts and any increase in these contributions would reduce the budget deficit. The net effect of the retirement system on the budget is the sum of benefits and refunds paid out less employee contributions.

When funds are needed to make benefit payments, the Treasury must obtain cash through its normal channels of tax receipts or public borrowing, as it does for all other Government outlays.

Note: The GAO response does not take into account payments by off-budget agencies (e.g. the Postal Service), to the fund which somewhat reduce budget outlays.

QUESTION:

The Administration says its proposals are to bring civil service benefits in line with private sector benefits. How would employee contributions and benefits under these proposals compare with the private sector?

RESPONSE:

Any fair analysis must compare civil service retirement benefits with both social security and employer-provided retirement benefits. It is not easy to make direct comparisons with the private sector, either in terms of total or individual benefits, because many factors must be considered and many assumptions made.

To assist us in making these comparisons, we used a 1980 Bankers Trust Company study of 325 private industry pension plans. To the best of our knowledge, this study is the most comprehensive, recent analysis of corporate retirement plans available.

The Administration proposes to increase employee contributions to 9 percent of pay in 1984 and 11 percent in 1985. Such contributions will be substantially greater than those required under private sector plans. In fact, the Bankers Trust study showed that 92 percent of private sector plans do not require any employee contributions. However, these employees are required to contribute to social security, and the rate in 1985 will be 5.7 percent of pay up to the indexed earnings ceiling, which is currently $35,700.

Our analyses of civil service retirement benefits assume adoption and full implementation of the Administration's proposals to (1) reduce annuities by 5 percent for each year the worker is under age 65 at time of retirement, (2) use high-5 year average salary for computing benefits, and (3) revise the benefit formula to 1.5 percent of average salary for each year of employment. We compared civil service and private sector benefits for a worker retiring at age 55 (earliest optional retirement possible under the civil service system), and for a more typical worker retiring at age 62, and the comparison showed that the Administration's proposals would cause civil service benefits to be considerably lower than those in the private sector. We used a final average salary of $25,000 and a 30-year career with the same employer in making our comparison.

The Bankers Trust study showed that in 1980 the median annuity reduction of staff plan benefits at age 55 was 31 percent. Applying this reduction to the typical employer-provided annuity would result in annual benefits of $6,000. By contrast, under the Administration's proposals, the Federal employee retir- ing at age 55 would receive $5,600 in civil service benefits. When these retirees reach age 62, the private sector retiree would receive an additional $6,700 each year in social security benefits, but the civil service retiree would not receive social security from his or her Federal employment.

Based on the Bankers Trust study, a private sector worker eligible for social security would receive combined benefits equal to 62 percent of final salary, for a combined annuity of $15,500. If the Administration's proposals are enacted, civil service employees retiring at age 62 would receive 38.25 percent of final average salary, or an annuity of $9,560.

QUESTION:

Is the OPM Director's statement true that retirement costs of private sector employers are only 17 percent of payroll?

RESPONSE:

The Director, OPM, testified that, according to OPM calculations, private sector employers' retirement costs amount to 17 percent of payroll.

The 17 percent cost was based on an analysis OPM did a few years ago in a survey that compared total compensation costs for Federal and private sector employees. Of primary importance here is the fact that the 17 percent figure is not the actual amount private employers are spending on retirement programs. Rather, it is OPM's estimate of what it would cost the Government if it offered Federal employees the average benefits provided by about 1,000 selected private employers.

In a December 1980 report ("Problems in Developing And Implementing A Total Compensation Plan For Federal Employees," FPCD-81-12), we analyzed OPM's methodology for making its estimates. We found that the many practical difficulties and possible errors inherent in its methodology made OPM's results tenuous. We also found that different approaches would have yielded different results. The Congresssional Budget Office (CBO), in March 1983, estimated that private sector employer costs were 22.8 percent of payroll--a significantly higher figure than

OPM's estimate of 17 percent. In making its estimate, CBO used OPM's survey data.

QUESTION:

Is the Administration's planned implementation of its proposed changes to the retirement system consistent with what would be allowed under the Employee Retirement Income Security Act of 1974 (ERISA)?

RESPONSE:

As we understand the Administration's proposals, some grandfathering would be provided for employees at or near retirement eligibility, but, in general, the changes would apply to most current employees. Consequently, most employees will lose a substantial portion of benefits they have earned to date. In fact, OPM estimates that adoption of the proposals would cost Federal employees $90 billion in earned benefits.

To our knowledge, civil service benefit reductions have never before been retroactive. Moreover, by law, it would never happen to private retirement plans. ERISA prohibits private employers from cutting accrued benefits. Any benefit reductions in a private plan must be prospective applying only to future service or the plan will lose its tax-qualified status.

QUESTION:

Has OPM studied the impact of its retirement proposals on the Federal work force?

RESPONSE:

OPM officials told us that they did not study how the proposals might affect recruitment and retention. They felt that work force quality might be affected, but that the Government would still be able to attract and retain the number of employees it needs. OPM based this conclusion on the large number of applicants for each vacant position.

We contacted personnel officials in 10 executive branch agencies and learned that none had been consulted before these proposals were announced. Many of these officials expressed concern about possible adverse impacts and believed that a careful, factual study should be conducted. We too believe such an analysis would be appropriate considering the severe benefit reductions that the proposals entail. For employees in lower grades, many of whom are females and minorities, benefits would fall below social security benefit levels.

QUESTION:

The Director of OPM said civil service retirement spending in 1982 was $31.4 billion--about $4.5 billion greater than the $26.9 billion spent on welfare that year. Is this true?

RESPONSE:

This statement is not accurate. In 1982, payments to civil service retirees and survivors totaled $18.8 billion. The $31.4 billion figure cited by the Director, OPM, as retirement spending was actually income to the fund, a combination of employee and Government contributions and interest earnings on fund investments.

QUESTION:

How does the average retirement age of a Federal employee compare with that of a private sector employee?

RESPONSE:

Based on OPM reports, the average age of Federal workers taking optional retirement during the past 10 years was 61.1. These workers averaged 29.3 years of employment with the Government. The average age of all civil service retirees on the rolls, as of September 1982, was 69.6.

We are unaware of any comprehensive data on retirement ages under private sector employer plans. However, we did note that the actuarial consulting firm of Johnson and Higgins surveyed 150 large companies in 1979 and found that, in the 72 companies that responded, the average retirement age was 61.8. Based on this limited information, the average retirement ages of employees--under private plans and in the Federal systems--seem to be quite similar.

While much has been said about the civil service retirement system encouraging early retirement, the Congress should note that as of September 30, 1982, 252,000 employees (about 10 percent of the covered work force) were eligible to retire but continued to work. Most of these employees were over 60 years of age.

QUESTION:

What is meant by the normal cost of the civil service retirement system and what is the Government's share of those costs?

RESPONSE:

Normal cost is defined as the percentage of pay that would have to be contributed for a typical group of new employees over their entire working careers in order to pay their eventual retirement benefits. Normal cost is used to measure benefit liabilities as they accrue.

Historically, OPM has computed normal cost on a "static" basis that assumes there will be no salary increases or annuity cost-of-living adjustments. Computed on this basis, the normal cost is approximately 14 percent of payroll and has remained at about this level since 1960.

In recent years, normal cost has also been computed using "dynamic" assumptions such as annual pay increases of 5.5 percent, annual annuity adjustments of 5 percent, and 6 percent interest on fund investments. Computed on this basis, the current normal cost is 35.3 percent of payroll. In computing this cost, OPM did not consider the reductions in cost-of-living adjustments made by the Congress in 1982 because these reductions were considered temporary. Had they been included, the normal cost would have been reduced somewhat.

The Government's share of normal cost is that portion not paid by employee contributions. Since 1920, when the civil service retirement system was established, the amount of employee contributions has always been specified by law. The Government's share of the system's cost was originally defined as the amount necessary to continue the program in "full force and effect." Then, in 1969, the Congress enacted new financing provisions stipulating that employees would contribute 7 percent; the remaining costs would be paid by matching employing agency contributions, direct congressional appropriations, and Treasury transfers. In adopting these provisions, the Congress noted that agency matching contributions were insufficient to cover the Government's portion of retirement costs, and, therefore, provided the additional financing provision to help finance existing and future liabilities.